

1 **TITLE VI—FEDERAL HOME LOAN**
2 **BANK SYSTEM MODERNIZATION**

3 **SEC. 601. SHORT TITLE.**

4 This title may be cited as the “Federal Home Loan
5 Bank System Modernization Act of 1999”.

6 **SEC. 602. DEFINITIONS.**

7 Section 2 of the Federal Home Loan Bank Act (12
8 U.S.C. 1422) is amended—

9 (1) in paragraph (1), by striking “term ‘Board’
10 means” and inserting “terms ‘Finance Board’ and
11 ‘Board’ mean”;

12 (2) by striking paragraph (3) and inserting the
13 following:

14 “(3) STATE.—The term ‘State’, in addition to
15 the States of the United States, includes the District
16 of Columbia, Guam, Puerto Rico, the United States
17 Virgin Islands, American Samoa, and the Common-
18 wealth of the Northern Mariana Islands.”; and

19 (3) by adding at the end the following new
20 paragraph:

21 “(13) COMMUNITY FINANCIAL INSTITUTION.—

22 “(A) IN GENERAL.—The term ‘community
23 financial institution’ means a member—

1 “(i) the deposits of which are insured
2 under the Federal Deposit Insurance Act;
3 and

4 “(ii) that has, as of the date of the
5 transaction at issue, less than
6 \$500,000,000 in average total assets,
7 based on an average of total assets over
8 the 3 years preceding that date.

9 “(B) ADJUSTMENTS.—The \$500,000,000
10 limit referred to in subparagraph (A)(ii) shall
11 be adjusted annually by the Finance Board,
12 based on the annual percentage increase, if any,
13 in the Consumer Price Index for all urban con-
14 sumers, as published by the Department of
15 Labor.”.

16 **SEC. 603. SAVINGS ASSOCIATION MEMBERSHIP.**

17 (a) FEDERAL HOME LOAN BANK MEMBERSHIP.—
18 Section 5(f) of the Home Owners’ Loan Act (12 U.S.C.
19 1464(f)) is amended to read as follows:

20 “(f) FEDERAL HOME LOAN BANK MEMBERSHIP.—
21 After the end of the 6-month period beginning on the date
22 of the enactment of the Federal Home Loan Bank System
23 Modernization Act of 1999, a Federal savings association
24 may become a member of the Federal Home Loan Bank

1 System, and shall qualify for such membership in the
2 manner provided by the Federal Home Loan Bank Act.”.

3 (b) WITHDRAWAL.—Section 6(e) of the Federal
4 Home Loan Bank Act (12 U.S.C. 1426(e)) is amended
5 by striking “Any member other than a Federal savings
6 and loan association may withdraw” and inserting “Any
7 member may withdraw if, on the date of withdrawal there
8 is in effect a certification by the Finance Board that the
9 withdrawal will not cause the Federal Home Loan Bank
10 System to fail to meet its obligation under section
11 21B(f)(2)(C) to contribute to the debt service for the obli-
12 gations issued by the Resolution Funding Corporation”.

13 **SEC. 604. ADVANCES TO MEMBERS; COLLATERAL.**

14 (a) IN GENERAL.—Section 10(a) of the Federal
15 Home Loan Bank Act (12 U.S.C. 1430(a)) is amended—

16 (1) by redesignating paragraphs (1) through
17 (4) as subparagraphs (A) through (D), respectively,
18 and indenting appropriately;

19 (2) by striking “(a) Each” and inserting the
20 following:

21 “(a) IN GENERAL.—

22 “(1) ALL ADVANCES.—Each”;

23 (3) by striking the second sentence and insert-
24 ing the following:

1 “(2) PURPOSES OF ADVANCES.—A long-term
2 advance may only be made for the purposes of—

3 “(A) providing funds to any member for
4 residential housing finance; and

5 “(B) providing funds to any community fi-
6 nancial institution for small businesses, small
7 farms, and small agri-businesses.”;

8 (4) by striking “A Bank” and inserting the fol-
9 lowing:

10 “(3) COLLATERAL.—A Bank”;

11 (5) in paragraph (3) (as so designated by para-
12 graph (4) of this subsection)—

13 (A) in subparagraph (C) (as so redesign-
14 ated by paragraph (1) of this subsection) by
15 striking “Deposits” and inserting “Cash or de-
16 posits”;

17 (B) in subparagraph (D) (as so redesign-
18 ated by paragraph (1) of this subsection), by
19 striking the second sentence; and

20 (C) by inserting after subparagraph (D)
21 (as so redesignated by paragraph (1) of this
22 subsection) the following new subparagraph:

23 “(E) Secured loans for small business, ag-
24 riculture, or securities representing a whole in-

1 terest in such secured loans, in the case of any
2 community financial institution.”;

3 (6) in paragraph (5)—

4 (A) in the second sentence, by striking
5 “and the Board”;

6 (B) in the third sentence, by striking
7 “Board” and inserting “Federal home loan
8 bank”; and

9 (C) by striking “(5) Paragraphs (1)
10 through (4)” and inserting the following:

11 “(4) ADDITIONAL BANK AUTHORITY.—Subpara-
12 graphs (A) through (E) of paragraph (3)”;

13 (7) by adding at the end the following:

14 “(5) REVIEW OF CERTAIN COLLATERAL STAND-
15 ARDS.—The Board may review the collateral stand-
16 ards applicable to each Federal home loan bank for
17 the classes of collateral described in subparagraphs
18 (D) and (E) of paragraph (3), and may, if necessary
19 for safety and soundness purposes, require an in-
20 crease in the collateral standards for any or all of
21 those classes of collateral.

22 “(6) DEFINITIONS.—For purposes of this sub-
23 section, the terms ‘small business’, ‘agriculture’,
24 ‘small farm’, and ‘small agri-business’ shall have the

1 meanings given those terms by rule or regulation of
2 the Finance Board.”.

3 (b) CLERICAL AMENDMENT.—The section heading
4 for section 10 of the Federal Home Loan Bank Act (12
5 U.S.C. 1430) is amended to read as follows:

6 **“SEC. 10. ADVANCES TO MEMBERS.”.**

7 (c) CONFORMING AMENDMENTS RELATING TO MEM-
8 BERS WHICH ARE NOT QUALIFIED THRIFT LENDERS—
9 The first of the 2 subsections designated as subsection (e)
10 of section 10 of the Federal Home Loan Bank Act (12
11 U.S.C. 1430(e)(1)) is amended—

12 (1) in the last sentence of paragraph (1), by in-
13 serting “or, in the case of any community financial
14 institution, for the purposes described in subsection
15 (a)(2)” before the period; and

16 (2) in paragraph (5)(C), by inserting “except
17 that, in determining the actual thrift investment per-
18 centage of any community financial institution for
19 purposes of this subsection, the total investment of
20 such member in loans for small businesses, small
21 farms, and small agri-businesses, or securities rep-
22 resenting a whole interest in such loans, shall be
23 treated as a qualified thrift investment (as defined
24 in such section 10(m))” before the period.

1 **SEC. 605. ELIGIBILITY CRITERIA.**

2 Section 4(a) of the Federal Home Loan Bank Act
3 (12 U.S.C. 1424(a)) is amended—

4 (1) in paragraph (2)(A), by inserting, “(other
5 than a community financial institution)” after “in-
6 stitution”;

7 (2) in the matter immediately following para-
8 graph (2)(C)—

9 (A) by striking “An insured” and inserting
10 the following:

11 “(3) CERTAIN INSTITUTIONS.—An insured”;
12 and

13 (B) by striking “preceding sentence” and
14 inserting “paragraph (2)”; and

15 (3) by adding at the end the following new
16 paragraph:

17 “(4) LIMITED EXEMPTION FOR COMMUNITY FI-
18 NANCIAL INSTITUTIONS.—A community financial in-
19 stitution that otherwise meets the requirements of
20 paragraph (2) may become a member without regard
21 to the percentage of its total assets that is rep-
22 resented by residential mortgage loans, as described
23 in subparagraph (A) of paragraph (2).”.

24 **SEC. 606. MANAGEMENT OF BANKS.**

25 (a) BOARD OF DIRECTORS.—Section 7 of the Federal
26 Home Loan Bank Act (12 U.S.C. 1427(d)) is amended—

1 (1) by striking the 1st sentence in subsection
2 (d) and inserting “The term of each director, wheth-
3 er elected or appointed, shall be 3 years. The board
4 of directors of each Federal home loan bank and the
5 Finance Board shall adjust the terms of members
6 first elected or appointed after the date of the enact-
7 ment of the Financial Services Modernization Act of
8 1999 to ensure that the terms of the members of the
9 board of directors are staggered with approximately
10 1/3 of the terms expiring each year.”; and

11 (2) by striking subsection (g) and inserting the
12 following new subsection:

13 “(g) CHAIRPERSON AND VICE CHAIRPERSON.—

14 “(1) ELECTION.—The Chairperson and Vice
15 Chairperson of the board of directors of each Fed-
16 eral home loan bank shall be elected by a majority
17 of all the directors of such bank from among the di-
18 rectors of the bank.

19 “(2) TERMS.—The term of office of the Chair-
20 person and the Vice Chairperson of the board of di-
21 rectors of a Federal home loan bank shall be 2
22 years.

23 “(3) ACTING CHAIRPERSON.—In the event of a
24 vacancy in the position of Chairperson of the board
25 of directors or during the absence or disability of the

1 Chairperson, the Vice Chairperson shall act as
2 Chairperson.

3 “(4) PROCEDURES.—The board of directors of
4 each Federal home loan bank shall establish proce-
5 dures, in the bylaws of such board, for designating
6 an acting chairperson for any period during which
7 the Chairperson and the Vice Chairperson are not
8 available to carry out the requirements of that posi-
9 tion for any reason and removing any person from
10 any such position for good cause.”.

11 (b) COMPENSATION.—Section 7(i) of the Federal
12 Home Loan Bank Act (12 U.S.C. 1427(i)) is amended—

13 (1) by striking “(i) Each bank may pay its di-
14 rectors” and inserting “(i) DIRECTORS’ COMPENSA-
15 TION.—

16 “(1) IN GENERAL.—Subject to paragraph (2),
17 each bank may pay its directors”; and

18 (2) by adding at the end the following new
19 paragraph:

20 “(2) LIMITATION.—

21 “(A) IN GENERAL.—The annual salary of
22 each of the following members of the board of
23 directors of a Federal home loan bank may not
24 exceed the amount specified:

“In the case of the—	The annual compensation may not exceed—
Chairperson	\$25,000

“In the case of the—	The annual compensation may not exceed—
Vice Chairperson	\$20,000
All other members	\$15,000.

1 “(B) ADJUSTMENT.—Beginning January
2 1, 2001, each dollar amount referred to in the
3 table in subparagraph (A) shall be adjusted an-
4 nually by the Finance Board, based on the an-
5 nual percentage increase, if any, in the Con-
6 sumer Price Index for all urban consumers, as
7 published by the Department of Labor.

8 “(C) EXPENSES.—Subparagraph (A) shall
9 not be construed as prohibiting the reimburse-
10 ment of expenses incurred by members of the
11 board of directors of any Federal home loan
12 bank in connection with service on the board of
13 directors.”.

14 (c) REPEAL OF SECTIONS 22A AND 27.—The Fed-
15 eral Home Loan Bank Act (12 U.S.C. 1421 et seq.) is
16 amended by striking sections 22A (12 U.S.C. 1442a) and
17 27 (12 U.S.C. 1447).

18 (d) SECTION 12.—Section 12 of the Federal Home
19 Loan Bank Act (12 U.S.C. 1432) is amended—

20 (1) in subsection (a)—

21 (A) by striking “, but, except” and all that
22 follows through “ten years”;

1 (B) by striking “subject to the approval of
2 the Board” the first place that term appears;

3 (C) by striking “and, by its Board of direc-
4 tors,” and all that follows through “agent of
5 such bank,” and inserting “and, by the board
6 of directors of the bank, to prescribe, amend,
7 and repeal by-laws governing the manner in
8 which its affairs may be administered, con-
9 sistent with applicable laws and regulations, as
10 administered by the Finance Board. No officer,
11 employee, attorney, or agent of a Federal home
12 loan bank”; and

13 (D) by striking “Board of directors” where
14 such term appears in the penultimate sentence
15 and inserting “board of directors”; and

16 (2) in subsection (b), by striking “loans banks”
17 and inserting “loan banks”.

18 (e) POWERS AND DUTIES OF FEDERAL HOUSING FI-
19 NANCE BOARD.—

20 (1) ISSUANCE OF NOTICES OF VIOLATIONS.—

21 Section 2B(a) of the Federal Home Loan Bank Act
22 (12 U.S.C. 1422b(a)) is amended by adding at the
23 end the following new paragraphs:

24 “(5) To issue and serve a notice of charges
25 upon a Federal home loan bank or upon any execu-

1 tive officer or director of a Federal home loan bank
2 if, in the determination of the Finance Board, the
3 Bank, executive officer, or director is engaging or
4 has engaged in, or the Finance Board has reason-
5 able cause to believe that the Bank, executive officer,
6 or director is about to engage in, any conduct that
7 violates any provision of this Act or any law, order,
8 rule, or regulation or any condition imposed in writ-
9 ing by the Finance Board in connection with the
10 granting of any application or other request by the
11 Bank, or any written agreement entered into by the
12 Bank with the agency, in accordance with the proce-
13 dures provided in section 1371(c) of the Federal
14 Housing Enterprises Financial Safety and Sound-
15 ness Act of 1992. Such authority includes the same
16 authority to take affirmative action to correct condi-
17 tions resulting from violations or practices or to
18 limit activities of a Bank or any executive officer or
19 director of a Bank as appropriate Federal banking
20 agencies have to take with respect to insured deposi-
21 tory institutions under paragraphs (6) and (7) of
22 section 8(b) of the Federal Deposit Insurance Act,
23 and to have all other powers, rights, and duties to
24 enforce this Act with respect to the Federal home
25 loan banks and their executive officers and directors

1 as the Office of Federal Housing Enterprise Over-
2 sight has to enforce the Federal Housing Enter-
3 prises Financial Safety and Soundness Act of 1992,
4 the Federal National Mortgage Association Charter
5 Act, or the Federal Home Loan Mortgage Corpora-
6 tion Act with respect to the Federal housing enter-
7 prises under the Federal Housing Enterprises Fi-
8 nancial Safety and Soundness Act of 1992.

9 “(6) To address any insufficiencies in capital
10 levels resulting from the application of section 5(f)
11 of the Home Owners’ Loan Act.

12 “(7) To sue and be sued, by and through its
13 own attorneys.”.

14 (2) TECHNICAL AMENDMENT.—Section 111 of
15 Public Law 93–495 (12 U.S.C. 250) is amended by
16 striking “Federal Home Loan Bank Board,” and in-
17 serting “Director of the Office of Thrift Supervision,
18 the Federal Housing Finance Board,”.

19 (f) ELIGIBILITY TO SECURE ADVANCES.—

20 (1) SECTION 9.—Section 9 of the Federal
21 Home Loan Bank Act (12 U.S.C. 1429) is
22 amended—

23 (A) in the second sentence, by striking
24 “with the approval of the Board”; and

1 (B) in the third sentence, by striking “,
2 subject to the approval of the Board,”.

3 (2) SECTION 10.—Section 10 of the Federal
4 Home Loan Bank Act (12 U.S.C. 1430) is
5 amended—

6 (A) in subsection (c)—

7 (i) in the first sentence, by striking
8 “Board” and inserting “Federal home loan
9 bank”; and

10 (ii) by striking the second sentence;
11 and

12 (B) in subsection (d)—

13 (i) in the first sentence, by striking
14 “and the approval of the Board”; and

15 (ii) by striking “Subject to the ap-
16 proval of the Board, any” and inserting
17 “Any”.

18 (g) SECTION 16.—Section 16(a) of the Federal Home
19 Loan Bank Act (12 U.S.C. 1436(a)) is amended—

20 (1) in the third sentence—

21 (A) by striking “net earnings” and insert-
22 ing “previously retained earnings or current net
23 earnings”; and

1 (B) by striking “, and then only with the
2 approval of the Federal Housing Finance
3 Board”; and

4 (2) by striking the fourth sentence.

5 (h) SECTION 18.—Section 18(b) of the Federal Home
6 Loan Bank Act (12 U.S.C. 1438(b)) is amended by strik-
7 ing paragraph (4).

8 **SEC. 607. RESOLUTION FUNDING CORPORATION.**

9 (a) IN GENERAL.—Section 21B(f)(2)(C) of the Fed-
10 eral Home Loan Bank Act (12 U.S.C. 1441b(f)(2)(C)) is
11 amended to read as follows:

12 “(C) PAYMENTS BY FEDERAL HOME LOAN
13 BANKS.—

14 “(i) IN GENERAL.—To the extent that
15 the amounts available pursuant to sub-
16 paragraphs (A) and (B) are insufficient to
17 cover the amount of interest payments,
18 each Federal home loan bank shall pay to
19 the Funding Corporation in each calendar
20 year, 20.0 percent of the net earnings of
21 that Bank (after deducting expenses relat-
22 ing to section 10(j) and operating ex-
23 penses).

24 “(ii) ANNUAL DETERMINATION.—The
25 Board annually shall determine the extent

1 to which the value of the aggregate
2 amounts paid by the Federal home loan
3 banks exceeds or falls short of the value of
4 an annuity of \$300,000,000 per year that
5 commences on the issuance date and ends
6 on the final scheduled maturity date of the
7 obligations, and shall select appropriate
8 present value factors for making such de-
9 terminations.

10 “(iii) PAYMENT TERM ALTER-
11 ATIONS.—The Board shall extend or short-
12 en the term of the payment obligations of
13 a Federal home loan bank under this sub-
14 paragraph as necessary to ensure that the
15 value of all payments made by the Banks
16 is equivalent to the value of an annuity re-
17 ferred to in clause (ii).

18 “(iv) TERM BEYOND MATURITY.—If
19 the Board extends the term of payment ob-
20 ligations beyond the final scheduled matu-
21 rity date for the obligations, each Federal
22 home loan bank shall continue to pay 20.0
23 percent of its net earnings (after deducting
24 expenses relating to section 10(j) and oper-
25 ating expenses) to the Treasury of the

1 United States until the value of all such
2 payments by the Federal home loan banks
3 is equivalent to the value of an annuity re-
4 ferred to in clause (ii). In the final year in
5 which the Federal home loan banks are re-
6 quired to make any payment to the Treas-
7 ury under this subparagraph, if the dollar
8 amount represented by 20.0 percent of the
9 net earnings of the Federal home loan
10 banks exceeds the remaining obligation of
11 the Banks to the Treasury, the Finance
12 Board shall reduce the percentage pro rata
13 to a level sufficient to pay the remaining
14 obligation.”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 subsection (a) shall become effective on January 1, 2000.
17 Payments made by a Federal home loan bank before that
18 effective date shall be counted toward the total obligation
19 of that Bank under section 21B(f)(2)(C) of the Federal
20 Home Loan Bank Act, as amended by this section.

21 **SEC. 608. CAPITAL STRUCTURE OF FEDERAL HOME LOAN**
22 **BANKS.**

23 Section 6 of the Federal Home Loan Bank Act (12
24 U.S.C. 1426) is amended to read as follows:

1 **“SEC. 6. CAPITAL STRUCTURE OF FEDERAL HOME LOAN**
2 **BANKS.**

3 “(a) REGULATIONS.—

4 “(1) CAPITAL STANDARDS.—Not later than 1
5 year after the date of the enactment of the Financial
6 Services Modernization Act of 1999, the Finance
7 Board shall issue regulations prescribing uniform
8 capital standards applicable to each Federal home
9 loan bank, which shall require each such bank to
10 meet—

11 “(A) the leverage requirement specified in
12 paragraph (2); and

13 “(B) the risk-based capital requirements,
14 in accordance with paragraph (3).

15 “(2) LEVERAGE REQUIREMENT.—

16 “(A) IN GENERAL.—The leverage require-
17 ment shall require each Federal home loan
18 bank to maintain a minimum amount of total
19 capital based on the aggregate on-balance sheet
20 assets of the bank and shall be 5 percent.

21 “(B) TREATMENT OF STOCK AND RE-
22 TAINED EARNINGS.—In determining compliance
23 with the minimum leverage ratio established
24 under subparagraph (A), the paid-in value of
25 the outstanding Class B stock and the amount
26 of retained earnings shall be multiplied by 1.25,

1 and such higher amounts shall be deemed to be
2 capital for purposes of meeting the 5 percent
3 minimum leverage ratio.

4 “(3) RISK-BASED CAPITAL STANDARDS.—

5 “(A) IN GENERAL.—Each Federal home
6 loan bank shall maintain permanent capital in
7 an amount that is sufficient, as determined in
8 accordance with the regulations of the Finance
9 Board, to meet—

10 “(i) the credit risk to which the Fed-
11 eral home loan bank is subject; and

12 “(ii) the market risk, including inter-
13 est rate risk, to which the Federal home
14 loan bank is subject, based on a stress test
15 established by the Finance Board that rig-
16 orously tests for changes in market vari-
17 ables, including changes in interest rates,
18 rate volatility, and changes in the shape of
19 the yield curve.

20 “(B) CONSIDERATION OF OTHER RISK-
21 BASED STANDARDS.—In establishing the risk-
22 based standard under subparagraph (A)(ii), the
23 Finance Board shall take due consideration of
24 any risk-based capital test established pursuant
25 to section 1361 of the Federal Housing Enter-

1 prises Financial Safety and Soundness Act of
2 1992 (12 U.S.C. 4611) for the enterprises (as
3 defined in that Act), with such modifications as
4 the Finance Board determines to be appro-
5 priate to reflect differences in operations be-
6 tween the Federal home loan banks and those
7 enterprises.

8 “(4) OTHER REGULATORY REQUIREMENTS.—
9 The regulations issued by the Finance Board under
10 paragraph (1) shall—

11 “(A) permit each Federal home loan bank
12 to issue, with such rights, terms, and pref-
13 erences, not inconsistent with this Act and the
14 regulations issued hereunder, as the board of
15 directors of that bank may approve, any one or
16 more of—

17 “(i) Class A stock, which shall be re-
18 deemable in cash and at par 6 months fol-
19 lowing submission by a member of a writ-
20 ten notice of its intent to redeem such
21 shares; and

22 “(ii) Class B stock, which shall be re-
23 deemable in cash and at par 5 years fol-
24 lowing submission by a member of a writ-

1 ten notice of its intent to redeem such
2 shares;

3 “(B) provide that the stock of a Federal
4 home loan bank may be issued to and held by
5 only members of the bank, and that a bank
6 may not issue any stock other than as provided
7 in this section;

8 “(C) prescribe the manner in which stock
9 of a Federal home loan bank may be sold,
10 transferred, redeemed, or repurchased; and

11 “(D) provide the manner of disposition of
12 outstanding stock held by, and the liquidation
13 of any claims of the Federal home loan bank
14 against, an institution that ceases to be a mem-
15 ber of the bank, through merger or otherwise,
16 or that provides notice of intention to withdraw
17 from membership in the bank.

18 “(5) DEFINITIONS OF CAPITAL.—For purposes
19 of determining compliance with the capital standards
20 established under this subsection—

21 “(A) permanent capital of a Federal home
22 loan bank shall include (as determined in ac-
23 cordance with generally accepted accounting
24 principles)—

1 “(i) the amounts paid for the Class B
2 stock; and

3 “(ii) the retained earnings of the
4 bank; and

5 “(B) total capital of a Federal home loan
6 bank shall include—

7 “(i) permanent capital;

8 “(ii) the amounts paid for the Class A
9 stock;

10 “(iii) consistent with generally accept-
11 ed accounting principles, and subject to the
12 regulation of the Finance Board, a general
13 allowance for losses, which may not include
14 any reserves or allowances made or held
15 against specific assets; and

16 “(iv) any other amounts from sources
17 available to absorb losses incurred by the
18 bank that the Finance Board determines
19 by regulation to be appropriate to include
20 in determining total capital.

21 “(6) TRANSITION PERIOD.—Notwithstanding
22 any other provisions of this Act, the requirements
23 relating to purchase and retention of capital stock of
24 a Federal home loan bank by any member thereof in
25 effect on the day before the date of the enactment

1 of the Federal Home Loan Bank System Moderniza-
2 tion Act of 1999, shall continue in effect with re-
3 spect to each Federal home loan bank until the reg-
4 ulations required by this subsection have taken ef-
5 fect and the capital structure plan required by sub-
6 section (b) has been approved by the Finance Board
7 and implemented by such bank.

8 “(b) CAPITAL STRUCTURE PLAN.—

9 “(1) APPROVAL OF PLANS.—Not later than 270
10 days after the date of publication by the Finance
11 Board of final regulations in accordance with sub-
12 section (a), the board of directors of each Federal
13 home loan bank shall submit for Finance Board ap-
14 proval a plan establishing and implementing a cap-
15 ital structure for such bank that—

16 “(A) the board of directors determines is
17 best suited for the condition and operation of
18 the bank and the interests of the members of
19 the bank;

20 “(B) meets the requirements of subsection
21 (c); and

22 “(C) meets the minimum capital standards
23 and requirements established under subsection
24 (a) and other regulations prescribed by the Fi-
25 nance Board.

1 “(2) APPROVAL OF MODIFICATIONS.—The
2 board of directors of a Federal home loan bank shall
3 submit to the Finance Board for approval any modi-
4 fications that the bank proposes to make to an ap-
5 proved capital structure plan.

6 “(c) CONTENTS OF PLAN.—The capital structure
7 plan of each Federal home loan bank shall contain provi-
8 sions addressing each of the following:

9 “(1) MINIMUM INVESTMENT.—

10 “(A) IN GENERAL.—Each capital structure
11 plan of a Federal home loan bank shall require
12 each member of the bank to maintain a min-
13 imum investment in the stock of the bank, the
14 amount of which shall be determined in a man-
15 ner to be prescribed by the board of directors
16 of each bank and to be included as part of the
17 plan.

18 “(B) INVESTMENT ALTERNATIVES.—

19 “(i) IN GENERAL.—In establishing the
20 minimum investment required for each
21 member under subparagraph (A), a Fed-
22 eral home loan bank may, in its discretion,
23 include any one or more of the require-
24 ments referred to in clause (ii), or any

1 other provisions approved by the Finance
2 Board.

3 “(ii) AUTHORIZED REQUIREMENTS.—

4 A requirement is referred to in this clause
5 if it is a requirement for—

6 “(I) a stock purchase based on a
7 percentage of the total assets of a
8 member; or

9 “(II) a stock purchase based on a
10 percentage of the outstanding ad-
11 vances from the bank to the member.

12 “(C) MINIMUM AMOUNT.—Each capital
13 structure plan of a Federal home loan bank
14 shall require that the minimum stock invest-
15 ment established for members shall be set at a
16 level that is sufficient for the bank to meet the
17 minimum capital requirements established by
18 the Finance Board under subsection (a).

19 “(D) ADJUSTMENTS TO MINIMUM RE-
20 QUIRED INVESTMENT.—The capital structure
21 plan of each Federal home loan bank shall im-
22 pose a continuing obligation on the board of di-
23 rectors of the bank to review and adjust the
24 minimum investment required of each member
25 of that bank, as necessary to ensure that the

1 bank remains in compliance with applicable
2 minimum capital levels established by the Fi-
3 nance Board, and shall require each member to
4 comply promptly with any adjustments to the
5 required minimum investment.

6 “(2) TRANSITION RULE.—

7 “(A) IN GENERAL.—The capital structure
8 plan of each Federal home loan bank shall
9 specify the date on which it shall take effect,
10 and may provide for a transition period of not
11 longer than 3 years to allow the bank to come
12 into compliance with the capital requirements
13 prescribed under subsection (a), and to allow
14 any institution that was a member of the bank
15 on the date of the enactment of the Financial
16 Services Modernization Act of 1999, to come
17 into compliance with the minimum investment
18 required pursuant to the plan.

19 “(B) INTERIM PURCHASE REQUIRE-
20 MENTS.—The capital structure plan of a Fed-
21 eral home loan bank may allow any member re-
22 ferred to in subparagraph (A) that would be re-
23 quired by the terms of the capital structure
24 plan to increase its investment in the stock of

1 the bank to do so in periodic installments dur-
2 ing the transition period.

3 “(3) DISPOSITION OF SHARES.—The capital
4 structure plan of a Federal home loan bank shall
5 provide for the manner of disposition of any stock
6 held by a member of that bank that terminates its
7 membership or that provides notice of its intention
8 to withdraw from membership in that bank.

9 “(4) CLASSES OF STOCK.—

10 “(A) IN GENERAL.—The capital structure
11 plan of a Federal home loan bank shall afford
12 each member of that bank the option of main-
13 taining its required investment in the bank
14 through the purchase of any combination of
15 classes of stock authorized by the board of di-
16 rectors of the bank and approved by the Fi-
17 nance Board in accordance with its regulations.

18 “(B) RIGHTS REQUIREMENT.—A Federal
19 home loan bank shall include in its capital
20 structure plan provisions establishing terms,
21 rights, and preferences, including minimum in-
22 vestment, dividends, voting, and liquidation
23 preferences of each class of stock issued by the
24 bank, consistent with Finance Board regula-
25 tions and market requirements.

1 “(C) REDUCED MINIMUM INVESTMENT.—

2 The capital structure plan of a Federal home
3 loan bank may provide for a reduced minimum
4 stock investment for any member of that bank
5 that elects to purchase Class B in a manner
6 that is consistent with meeting the minimum
7 capital requirements of the bank, as established
8 by the Finance Board.

9 “(D) LIQUIDATION OF CLAIMS.—The cap-
10 ital structure plan of a Federal home loan bank
11 shall provide for the liquidation in an orderly
12 manner, as determined by the bank, of any
13 claim of that bank against a member, including
14 claims for any applicable prepayment fees or
15 penalties resulting from prepayment of ad-
16 vances prior to stated maturity.

17 “(5) LIMITED TRANSFERABILITY OF STOCK.—

18 The capital structure plan of a Federal home loan
19 bank shall—

20 “(A) provide that any stock issued by that
21 bank shall be available only to and held only by
22 members of that bank and tradable only be-
23 tween that bank and its members; and

24 “(B) establish standards, criteria, and re-
25 quirements for the issuance, purchase, transfer,

1 retirement, and redemption of stock issued by
2 that bank.

3 “(6) BANK REVIEW OF PLAN.—Before filing a
4 capital structure plan with the Finance Board, each
5 Federal home loan bank shall conduct a review of
6 the plan by—

7 “(A) an independent certified public ac-
8 countant, to ensure, to the extent possible, that
9 implementation of the plan would not result in
10 any write-down of the redeemable bank stock
11 investment of its members; and

12 “(B) at least one major credit rating agen-
13 cy, to determine, to the extent possible, whether
14 implementation of the plan would have any ma-
15 terial effect on the credit ratings of the bank.

16 “(d) TERMINATION OF MEMBERSHIP.—

17 “(1) VOLUNTARY WITHDRAWAL.—Any member
18 may withdraw from a Federal home loan bank by
19 providing written notice to the bank of its intent to
20 do so. The applicable stock redemption notice peri-
21 ods shall commence upon receipt of the notice by the
22 bank. Upon the expiration of the applicable notice
23 period for each class of redeemable stock, the mem-
24 ber may surrender such stock to the bank, and shall
25 be entitled to receive in cash the par value of the

1 stock. During the applicable notice periods, the
2 member shall be entitled to dividends and other
3 membership rights commensurate with continuing
4 stock ownership.

5 “(2) INVOLUNTARY WITHDRAWAL.—

6 “(A) IN GENERAL.—The board of directors
7 of a Federal home loan bank may terminate the
8 membership of any institution if, subject to Fi-
9 nance Board regulations, it determines that—

10 “(i) the member has failed to comply
11 with a provision of this Act or any regula-
12 tion prescribed under this Act; or

13 “(ii) the member has been determined
14 to be insolvent, or otherwise subject to the
15 appointment of a conservator, receiver, or
16 other legal custodian, by a State or Fed-
17 eral authority with regulatory and super-
18 visory responsibility for the member.

19 “(B) STOCK DISPOSITION.—An institution,
20 the membership of which is terminated in ac-
21 cordance with subparagraph (A)—

22 “(i) shall surrender redeemable stock
23 to the Federal home loan bank, and shall
24 receive in cash the par value of the stock,

1 upon the expiration of the applicable notice
2 period under subsection (a)(4)(A);

3 “(ii) shall receive any dividends de-
4 clared on its redeemable stock, during the
5 applicable notice period under subsection
6 (a)(4)(A); and

7 “(iii) shall not be entitled to any other
8 rights or privileges accorded to members
9 after the date of the termination.

10 “(C) COMMENCEMENT OF NOTICE PE-
11 RIOD.—With respect to an institution, the
12 membership of which is terminated in accord-
13 ance with subparagraph (A), the applicable no-
14 tice period under subsection (a)(4) for each
15 class of redeemable stock shall commence on
16 the earlier of—

17 “(i) the date of such termination; or

18 “(ii) the date on which the member
19 has provided notice of its intent to redeem
20 such stock.

21 “(3) LIQUIDATION OF INDEBTEDNESS.—Upon
22 the termination of the membership of an institution
23 for any reason, the outstanding indebtedness of the
24 member to the bank shall be liquidated in an orderly
25 manner, as determined by the bank and, upon the

1 extinguishment of all such indebtedness, the bank
2 shall return to the member all collateral pledged to
3 secure the indebtedness.

4 “(e) REDEMPTION OF EXCESS STOCK.—

5 “(1) IN GENERAL.—A Federal home loan bank,
6 in its sole discretion, may redeem or repurchase, as
7 appropriate, any shares of Class A or Class B stock
8 issued by the bank and held by a member that are
9 in excess of the minimum stock investment required
10 of that member.

11 “(2) EXCESS STOCK.—Shares of stock held by
12 a member shall not be deemed to be ‘excess stock’
13 for purposes of this subsection by virtue of a mem-
14 ber’s submission of a notice of intent to withdraw
15 from membership or termination of its membership
16 in any other manner.

17 “(3) PRIORITY.—A Federal home loan bank
18 may not redeem any excess Class B stock prior to
19 the end of the 5-year notice period, unless the mem-
20 ber has no Class A stock outstanding that could be
21 redeemed as excess.

22 “(f) IMPAIRMENT OF CAPITAL.—If the Finance
23 Board or the board of directors of a Federal home loan
24 bank determines that the bank has incurred or is likely
25 to incur losses that result in or are expected to result in

1 charges against the capital of the bank, the bank shall
2 not redeem or repurchase any stock of the bank without
3 the prior approval of the Finance Board while such
4 charges are continuing or are expected to continue. In no
5 case may a bank redeem or repurchase any applicable cap-
6 ital stock if, following the redemption, the bank would fail
7 to satisfy any minimum capital requirement.

8 “(g) REJOINING AFTER DIVESTITURE OF ALL
9 SHARES.—

10 “(1) IN GENERAL.—Except as provided in para-
11 graph (2), and notwithstanding any other provision
12 of this Act, an institution that divests all shares of
13 stock in a Federal home loan bank may not, after
14 such divestiture, acquire shares of any Federal home
15 loan bank before the end of the 5-year period begin-
16 ning on the date of the completion of such divesti-
17 ture, unless the divestiture is a consequence of a
18 transfer of membership on an uninterrupted basis
19 between banks.

20 “(2) EXCEPTION FOR WITHDRAWALS FROM
21 MEMBERSHIP BEFORE 1998.—Any institution that
22 withdrew from membership in any Federal home
23 loan bank before December 31, 1997, may acquire
24 shares of a Federal home loan bank at any time

1 after that date, subject to the approval of the Fi-
2 nance Board and the requirements of this Act.

3 “(h) TREATMENT OF RETAINED EARNINGS.—

4 “(1) IN GENERAL.—The holders of the Class B
5 stock of a Federal home loan bank shall own the re-
6 tained earnings, surplus, undivided profits, and eq-
7 uity reserves, if any, of the bank.

8 “(2) EXCEPTION.—Except as specifically pro-
9 vided in this section or through the declaration of a
10 dividend or a capital distribution by a Federal home
11 loan bank, or in the event of liquidation of the bank,
12 a member shall have no right to withdraw or other-
13 wise receive distribution of any portion of the re-
14 tained earnings of the bank.

15 “(3) LIMITATION.—A Federal home loan bank
16 may not make any distribution of its retained earn-
17 ings unless, following such distribution, the bank
18 would continue to meet all applicable capital require-
19 ments.”.